

## What Happened To Creative Advertising?

By Steven Pearlstein

Wednesday, September 20, 2006; D01

NEW YORK

The advertising industry is having trouble figuring out whether these are the best of times or the worst of times.

They are the worst of times because the business model on which the industry was built -- hefty profit margins for pitching mass products through mass media to mass markets -- is finally collapsing.

Gone are the days when gray-suited admen would commute to Grand Central Terminal from the Connecticut suburbs, walk the few blocks to Madison Avenue, spend the day concocting clever, feel-good ads, collect 15 percent commissions for placing them with the three TV networks and glossy magazines, and schmooze clients over three-martini lunches.

Today, the center of gravity has moved downtown to SoHo and TriBeCa, and much of the work is done by twentysomethings in jeans and T-shirts. They earn less and work harder to peddle niche products through a fragmented media market to savvy consumers who tune out messages they find boring or irrelevant. The cushy commissions have been replaced by stingier, cost-plus-fee schedules imposed by numbers-driven corporate marketing officers who care less about the creativity of advertising than its return on investment.

None of this happened overnight -- the process began more than 20 years ago. But it's fair to say the industry has recently been through a less-than-golden era, whether measured in profitability, creativity, or the satisfaction level of clients or employees.

In the search for what went wrong, one path leads to industry consolidation.

Starting in the early 1980s, the storied independent agencies that bore the names of their witty and intelligent founders -- Ogilvy & Mather, Young & Rubicam, J. Walter Thompson and Doyle Dane Bernbach -- were bought up by big holding companies. The problem, of course, was that the buyers paid ridiculously high prices for firms where the talent and the clients can walk out the door anytime. And some did, heading for nimbler, cheaper and more creative regional shops. So the consolidators figured they had no choice but to buy those, too. To that were added foreign firms, public relations firms, research firms and production agencies, on the theory that they could provide one-stop shopping to their global corporate clients. When Internet marketing firms became all the rage in the late 1990s, they overpaid for those, too.

As it turned out, much of this consolidation was based on false premises.

There weren't really many economies of scale to be achieved by combining all these competing agencies, and not much cooperation ever developed among former rivals. Corporate clients still wanted to be pitched by agencies, not conglomerates, and were less interested in one-stop shopping than first thought. And in time, clients such as McDonald's and Procter & Gamble realized that to get breakthrough work, they had to look beyond their primary agency to upstart firms.

The consolidation also transformed advertising from an industry that was mostly private to one dominated by public companies. Combining agencies under one roof, the consolidators reasoned, would provide a hedge against the trauma of a big client moving from one firm to another.

In practice, however, things haven't exactly worked out as planned, including for investors, whose annual returns have ranged from mediocre to awful. Creative-services firms have proven ill-suited to the demands of public shareholders and analysts, with their fixation on quarterly earnings targets and double-digit growth. The emphasis on cost-cutting and meeting financial goals dampened the enthusiasm for risk-taking at the heart of creative advertising.

"The mantra became 'Figure out what the client wants, do it, and get paid,' " explains Lee Clow, the legendary creative director at Chiat/Day. And because agencies are generally paid on the basis of fixed retainers, hourly billing rates and media commissions, there is no financial difference between delivering a blockbuster ad and delivering a mediocre one.

Not all the blame for bland, formulaic advertising, however, lies with the advertising industry. Many clients are also to blame. Chief marketing officers, with an average tenure of less than three years, have become loath to take risks. And in their drive to meet growth targets and cost-accountability, they rely heavily on research techniques such as testing ads in front of focus groups -- leading, inevitably, to least-common-denominator ads.

To break out of this rut, the chief executive of Procter & Gamble, the nation's biggest advertiser, recently decided to shift some of its business away from Saatchi & Saatchi to Weiden + Kennedy, Nike's longtime agency, known for its creativity. But Buz Sawyer, who runs Weiden's office here, said it took P&G six months to identify a brand manager within the company who was willing to work with an edgy agency that relied on gut instinct rather than focus groups to create ads for Old Spice.

There are some industry leaders, such as Ogilvy's Shelly Lazarus, who claim that while clients have become more risk-averse, she's never known one whom she hasn't been able to sell on a great idea. And Ogilvy's success over the years with American Express and IBM -- and, more recently, Dove soap, with its "real beauty" billboards featuring size-12 women in their skivvies -- certainly speak to that. But far more executives I spoke with agree with Sawyer, who, looking across the industry, asks simply, "Where have all the good clients gone?"

Happily, this may be about to change.

Because so much time and money is shifting to the Internet, none of the old rules applies. Now, it is the clients who are pushing the agencies for change, and the agencies are finally examining how they are organized, how they are paid and how they conceive of their jobs. As a result, after a decade of fighting changes, the industry is coming around to embrace them. Changes once seen as frightening are now being viewed, at least at the top of the ad business, as opportunities.

"This is the best time to be in this business," said Kevin Roberts, the charismatic Aussie who heads Saatchi & Saatchi, part of Publicis Group. "None of the old rules are rules any more."

More on that in Friday's column.